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8 UNITED STATES DISTRICT COURT
9 FOR THE CENTRAL DISTRICT OF CALIFORNIA
10 WESTERN DIVISION
11

12 KASHWERE USAJPN LLC; FLAT
13 BE CO. LTD; SIRIUS
CORPORATION,

14 Plaintiffs,

15 v.

16 COSTCO WHOLESALE
17 CORPORATION, a Washington
corporation dba COSTCO USA AND
18 COSTCO JAPAN; and DOES 1
through 10, inclusive,

19 Defendants.
20

Case No. CV13-6940 BRO (MANx)

Assigned to Hon. Beverly Reid O'Connell

**DEFENDANT COSTCO WHOLESALE
CORPORATION'S TRIAL BRIEF**

Trial Date: January 13, 2015

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1 I. INTRODUCTION

2 Costco Wholesale Corporation (“Costco”) submits this trial brief to address
3 three specific issues, and to demonstrate that most, if not all, of the remaining
4 claims can be disposed of without the need to select and try the case to a jury.

5 (1) In order to avoid Plaintiffs again trying to relitigate issues already
6 resolved, Costco wishes to reiterate that the Court’s December 29, 2014, rulings on
7 the parties’ Motions *in Limine* mean that the only substantive issue which remains
8 to be tried is whether Costco’s Kashwere goods sold in Japan were actually created
9 by or for the U.S. trademark holders, TMG Kreations, LLC and Kashwere, LLC
10 (“TMG/Kashwere”), or whether they were “knockoffs” (goods manufactured
11 without the approval or oversight of the trademark owner).¹ In light of the Court’s
12 ruling on the “knockoff” issue, issues of quality differences and consumer
13 confusion no longer are part of the case.

14 It is Plaintiffs’ burden to establish that Costco’s goods are not actual
15 TMG/Kashwere goods, but rather are *Gucci*-type knockoffs, and Plaintiffs have no
16 evidence whatsoever to support such a claim. Moreover, Costco is able, if
17 necessary, to present irrefutable evidence establishing that the Kashwere goods it
18 sold were authentic TMG/Kashwere goods that originated with the trademark
19 holders – including documentary evidence so clear that Plaintiffs have no basis
20 under Rule 11 for pursuing this case.

21 (2) Plaintiffs Sirius Corporation and Kashwere USAJPN, LLC no longer
22 have any viable claims in the action; and

23 (3) This Court lacks Subject Matter Jurisdiction over any remaining issue,
24

25 ¹ Costco uses the term knockoffs to refer to goods often referred to as counterfeit,
26 i.e. the type of goods at issue in *Gucci America, Inc. v. Duty Free Apparel, Ltd.*,
27 286 F.Supp.2d 284 (S.D.N.Y. 2003); as differentiated from so-called, non-genuine
28 goods such as those at issue in *El Greco Leather Products Company, Inc. v. Shoe*
World, Inc., 806 F.2d 392 (2d Cir. 1992).

1 as any Plaintiff remaining in the case cannot satisfy the Ninth Circuit's three-part
2 test for extraterritorial application of the Lanham Act.

3
4 **II. THE ONLY SUBSTANTIVE CLAIM REMAINING IS WHETHER**
5 **COSTCO'S KASHWERE GOODS WERE TMG/KASHWERE GOODS**
6 **OR KNOCKOFFS AND COSTCO WILL PRESENT IRREFUTABLE**
7 **EVIDENCE TO THAT EFFECT**

8 On December 29, 2014, the Court held a hearing on all parties' Motions *in*
9 *Limine* in this case. As a result of the Court's rulings – in particular, on Costco's
10 Motion *in Limine* No. 3 To Exclude Evidence and/or Argument Regarding
11 Plaintiffs' Contention that Costco's Kashwere Goods are Not Genuine Kashwere
12 USAJPN LLC Goods or Differ from Genuine Kashwere USAJPN LLC Goods
13 (Dkt. # 46) and Costco's Motion *in Limine* No. 4 To Exclude Evidence and/or
14 Argument Regarding Plaintiffs' Contention that Costco's Kashwere Goods are Not
15 Genuine TMG/Kashwere Goods (Dkt. # 47) – the issues remaining to be tried have
16 been significantly narrowed.

17 The Court heard argument on Costco's Third and Fourth Motions *in Limine*
18 together. (Transcript, 19:13). Counsel for Costco, Norman H. Levine, framed the
19 issue raised by Costco's Third and Fourth Motions *in Limine* as whether Plaintiffs'
20 theory of liability was that Costco's goods were of inferior quality to those of
21 Plaintiffs, or whether Plaintiffs' theory was that Costco's goods were "knockoffs."

22 Because the transcripts set forth the Court's rulings so clearly, and because of
23 Costco's concern that Plaintiffs will nevertheless attempt to raise the issues yet
24 again, Costco will quote extensively from the transcript.

25 MR. LEVINE: There is an issue as to whether the goods are --
26 what I'll call counterfeit, for lack of a better word. There's one of the
27
28

1 cases cited by counsel. It's a Gucci case² where somebody was selling
2 -- we understand what counterfeit Gucci handbags are.

3 THE COURT: Yep.

4 [*]

5 MR. LEVINE: If there is a claim here that the Kashwere goods
6 that we sold, this item (indicating) is counterfeit, à la a fake Prada or
7 Gucci bag, that's one thing. But what Counsel is talking about is, I
8 think, less counterfeit than what I'll call genuine. And genuine is the
9 issue that's raised in cases such as the *El Greco*³ case. The --

10 THE COURT: Uh-huh.

11 MR. LEVINE: The concept of the *El Greco* case is that if a
12 trademark holder has a trademark and somebody else sells inferior
13 goods, the trademark owner can sue the seller of the inferior goods.
14 That's not the claim here. Here, the claim is 180 degrees the opposite.
15 Here, the claim is we know who the trademark holder is. The Court
16 has already ruled that TMG/Kashwere, LLC, the Illinois litigants who
17 are not here, hold the trademark. And the goods that we claim we
18 sold, this item here (indicating), if it's not counterfeit, is goods that
19 came from TMG/Kashwere, LLC, the Illinois folks. And the claim of
20 Mr. Klein is that his goods -- he's the licensee. Your Honor held that
21 in No. 15 -- Docket 15 says Kashwere, LLC, is the trademark holder.
22 Kashwere -- Kashwere USAJPN, USA Japan, is the licensee. Every
23 single case that I know of and certainly every single one cited by the
24 plaintiff holds that if the trademark holder, the licensor, has a

25
26 ² Referring to *Gucci America, Inc. v. Duty Free Apparel, Ltd.*, cited in note 1,
27 *supra*.

28 ³ *El Greco Leather Products Company, Inc. v. Shoe World, Inc.*, cited in note 1,
supra.

1 trademark and the licensee sells goods that are nonconforming, there
2 may be a claim. There is no case, nor could there logically be a case
3 that says that the licensee can claim that the licensor's goods are
4 nonconforming. If I own a restaurant and I sell Coca-Cola and I put a
5 new ingredient in it and claim that I've made it better, I can't sue Coca-
6 Cola because my product is better. Identical to that argument, if Mr.
7 Klein's client takes this trademark item (indicating) and improves it,
8 he can't turn around and assert an *El Greco* claim --

9 THE COURT: Right.

10 MR. LEVINE: -- against my client. And that's what he's trying
11 to do. The essence of his claim is that he has a better Kashwere
12 product than Kashwere itself. He's made a better Coca-Cola than
13 Coca-Cola. And if the Court -- and I can go through them. But every
14 single one of these cases--

15 [*]

16 THE COURT:.. I think what you're trying to separate is what
17 you tried to separate when you first appeared for the pretrial
18 conference.

19 MR. LEVINE: Yes.

20 THE COURT: Are we talking about knockoffs? Are we talking
21 about inferior quality?

22 MR. LEVINE: Yes.

23 THE COURT: I think that's what you're --

24 MR. LEVINE: Yes. And knockoffs is another story. I'd like to
25 address that next. But I want to talk about inferior quality. And it
26 cannot be that I can sue Coca-Cola because my Coca-Cola is better.
27 And it cannot be that he can sue Costco because his Kashwere is better
28 because we bought from the one with superior rights. And in -- in *El*

1 *Greco*, it says, ‘The holder of a trademark is entitled to require, as *El*
2 *Greco* did here, that no merchandise be distributed without its first
3 being inspected by the holder or its agent to ensure quality.’ So unless
4 Counsel can point the Court to a case which holds the opposite, that
5 the trademark licensee is entitled to require that the licensor goods not
6 be of inferior quality, that there is no claim for -- for -- for anything.
7 We were -- as the trademark holder’s successor, we’re entitled to sell
8 the trademark holder’s goods without worrying that somebody else has
9 altered them and can turn around and sue us.

10 Transcript, 20:24-24:1 (emphasis added).

11 Mr. Klein then pointed to the case of *Hokto Kinoko Co. v. Concord Farms,*
12 *Inc.*, 738 F.3d 1085 (9th Cir. 2013) as a purported example of a case which held the
13 opposite of the *El Greco* case cited by Mr. Levine, and which Plaintiffs argued
14 supported their ability to recover on the “inferior quality” theory of liability. *Id.* at
15 24:8.

16 The Court, however, distinguished *Hokto* and ultimately held that Plaintiffs
17 could not recover under the “inferior quality” theory. The Court held:

18 THE COURT: All right. With respect to the quality issue,
19 *Hokto*, okay, started off as a licensee but then was assigned the
20 trademark rights.

21 MR. KLEIN: Right. That’s right.

22 THE COURT: Assigned, which makes them in stronger stead.
23 And I’ve ruled on this, and I’m not going back on it. So -- and the
24 Seventh Circuit’s opinion established that Plaintiffs cannot prevent
25 third-party distributors from selling genuine TMG/Kashwere products
26 in Japan. So the question is -- the right -- the right to control the
27 quality of the goods is limited to the trademark holder. And, quite
28 clearly, I have ruled the plaintiffs are not the trademark holder...the

1 plaintiffs are barred from arguing that.

2 [*]

3 THE COURT: ... the quality of that is not to be litigated. Okay?

4 Because that is a right given to a holder, not a licensee. And

5 I'm finding that actually *Hokto Kinoko* supports that.

6 *Id.* at 31:8-20 and 32:9-11 (emphasis added).

7 The Court however, ruled that the "knockoff" theory remained viable:

8 THE COURT: But if we're talking about a genuineness issue,

9 that these are knockoffs because they have three tags, because they

10 were bought from, I don't know, whatever, that's a different issue.

11 That's a different issue. And I believe that that's an issue for the

12 jury...So the question is whether or not the -- the sweater that I'm

13 seeing so much of is genuine. Okay? Mr. Seltzer's going to say, no, he

14 knows. And Mr. Papile's going to say, 'But I bought them from' --

15 what is it? -- 'TMG.' Okay? So that's my ruling on 3 and 4.

16 *Id.* at 31:22-32:8.

17 The Court later reiterated its ruling that the "inferior quality" theory of
18 liability had been precluded and that only the "knockoff" theory of liability remains
19 to be tried in connection with its rulings on the parties' proposed jury instructions:

20 MR. LEVINE: ...I think that in light of the Court's ruling on our

21 Motion No. 3, Instruction 1.2 can be further narrowed. The Court has

22 ruled that there will be no evidence of the quality issue but there will

23 be evidence of the knockoff issue.

24 THE COURT: Right...

25 *Id.* at 33:21-25.

26 In light of the foregoing, the only substantive issue which remains to be tried
27 is whether Costco's Kashwere goods sold in Japan were not actual TMG/Kashwere
28 goods, but rather knockoffs. If Plaintiffs are unable to establish the goods are

1 knockoffs, then Costco is entitled to judgment with respect to all claims of all
2 Plaintiffs.

3 Similarly, questions of consumer confusion are irrelevant to the remaining
4 “knockoff” issue because, as Costco has repeatedly represented to the Court and
5 Plaintiffs, if its goods did not originate with TMG/Kashwere, but are knockoffs,
6 Costco will concede the issue of consumer confusion.⁴ To put it another way, if
7 Costco was selling TMG/Kashwere goods, Plaintiffs have no basis for raising the
8 consumer confusion issue, because that issue can only be raised by the trademark
9 holder. If Costco was selling knockoffs, there is no need to present evidence of
10 confusion because “counterfeits, by their very nature, cause confusion.” *Gucci*
11 *America, Inc.*, 286 F.Supp.2d at 287.

12 It is Plaintiffs’ burden to establish by a preponderance of the evidence that
13 Costco is selling knockoff Kashwere goods. If Plaintiffs can somehow make a
14 prima facie showing that the goods are knockoffs, Costco will present conclusive
15 evidence establishing that its goods are in fact actual TMG/Kashwere goods.

16
17 **III. CLAIMS OF ONLY ONE PLAINTIFF, FLAT BE, REMAIN TO BE**
18 **TRIED**

19 Plaintiffs’ claims need to be analyzed plaintiff by plaintiff. When this
20 analysis is done, it becomes clear that only one of the Plaintiffs still has a claim that
21 can potentially go to trial.⁵

22
23
24 ⁴ Costco intends to submit a proposed stipulation on this issue in connection with its
25 response to the Court’s Order Presenting Modified Jury Instructions (Dkt. # 85).

26 ⁵ The desire to avoid precisely this analysis might explain Plaintiffs’ objection to
27 Form Instruction 1.5, which states, “You should decide the case as to each plaintiff
28 separately. Unless otherwise stated, the instructions apply to all parties.” The Court
overruled Plaintiffs’ objection to this instruction and ruled that it should be given.
Transcript, 56:6-11.

1 A. The Claims of Sirius Are Based on Trademarks Which the Court Has
 2 Ruled Cannot be the Basis of a Claim.

3 Plaintiff Sirius is a Japanese corporation and a citizen of Japan. (FAC, ¶ 3).
 4 It is the sales subsidiary of Flat Be. (FAC, ¶ 4). The only substantive allegations of
 5 the First Amended Complaint relating to Sirius are that either it or Flat Be “own[s]
 6 a registered trademark for Kashwere goods in Japan under international class 35”
 7 (FAC, ¶ 5), and that “Costco Wholesale Corporation has infringed on Sirius’s
 8 registered trademark Kashwére TM in Japan.” (FAC, ¶ 42). The Court has ruled
 9 that the trial will not include any claim against Costco for trademark infringement
 10 or any claim based on a Japanese trademark. (See Dkt. # 15; Dkt. # 32; Transcript,
 11 15:3-16:17). These rulings resolve all claims asserted by Sirius, even if subject
 12 matter jurisdiction exists.

13 B. Kashwere USAJPN Has No Viable Claim.

14 1. Lack of Standing

15 The only American plaintiff is Kashwere USAJPN, a Wyoming limited
 16 liability company and a citizen of the State of Wyoming. (FAC, ¶ 1). Kashwere
 17 USAJPN is the “exclusive licensee of [the] federally registered international
 18 trademarks in class 23 and 24 for the trademark Kashwére TM in Japan.” (FAC, ¶
 19 6). As licensee, it may sell so-called Licensed Goods only in Japan and only
 20 through its exclusive distributor in Japan, Flat Be. (FAC, ¶ 22(b)). The First
 21 Amended Complaint alleges that Kashwere USAJPN is entitled to receive a royalty
 22 on sales of goods by Flat Be in Japan (FAC, ¶ 25), but as shown below, this
 23 allegation is false. It does not appear that Kashwere USAJPN manufactures or sells
 24 any goods.

25 Plaintiffs’ Trial Brief on Extraterritorial Reach of the Lanham Act (Dkt. #
 26 82) (the “Jurisdiction Brief”) states, “Plaintiff Kashwere USAJPN, a United States
 27 entity and Pete Seltzer its member and a citizen of California, suffered injuries from
 28 lost royalties.” Mr. Seltzer is not a party to this lawsuit, so his entitlement to

1 royalties is irrelevant.

2 Even if Kashwere USAJPN in fact was entitled to royalties, it would not have
3 a right to sue Costco for lost royalties. Flat Be, not Kashwere USAJPN, is the party
4 that can sue for damages relating to the licensed products. If both Kashwere
5 USAJPN and Flat Be – licensor and licensee – could maintain an action based on
6 the identical conduct and circumstances, Costco would be subjected to multiple
7 liability for the same acts.

8 In *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S.Ct. 1377
9 (2014), the Supreme Court stated that “We thus hold that a plaintiff suing under
10 §1125(a) ordinarily must show economic or reputational injury flowing directly
11 from the deception wrought by the defendant’s advertising; and that that occurs
12 when deception of consumers causes them to withhold trade from the plaintiff.
13 That showing is generally not made when the deception produces injuries to a
14 fellow commercial actor that in turn affect the plaintiff.” *Id.* at 1391. Here,
15 Kashwere USAJPN falls squarely within this limitation; the alleged injury to
16 Kashwere USAJPN is a result of claimed injury to Flat Be that in turn allegedly
17 reduced Kashwere USAJPN’s royalties. Nothing in the *Lexmark* case suggests that
18 the result should be different because Plaintiffs assert false designation of origin,
19 not false advertising.

20 2. No Damages

21 Not only do Kashwere USAJPN’s claims fail because of lack of standing, but
22 they also fail because it cannot show damages, direct or indirect. As set forth
23 above, the premise of its claim is that it “suffered injuries from lost royalties.”
24 However, Mr. Seltzer – in his capacity as the representative of Kashwere USAJPN
25 under F.R.C.P. 30(b)(6) – testified in his deposition taken in the Illinois Litigation⁶
26

27 ⁶ *TMG Kreations, LLC et al. v. Peter Seltzer; Flat Be Co. Ltd., et al.*, No. 12-CV-
28 05018 (N.D. Ill.).

on July 19, 2013, that Kashwere USAJPN is not entitled to receive royalties on Flat Be's sales. A different Seltzer company, Dyljac Kashwere LP, which is not a party to this action, is the entity arguably entitled to royalties. For example, Mr. Seltzer testified, at page 342, lines 5-22:⁷

Q. · If you can go to Page 20 of your counterclaim, Paragraph 26, at the bottom of 20. When it says, "In 2010, Peter Seltzer formed counter-claimant Kashwere USA Japan, LLC, and assigned rights under the contract with Defendants ·to that entity, including the right to receive royalty payments under the exclusive trademark ·license agreement and the Flat Be agreement to Kashwere USA Japan, LLC."

Is that allegation there saying that any royalty payments were also assigned to Kashwere USA Japan, LLC?

A. · No. · As I explained earlier, a Flat ·Be -- yeah, Flat Be's accountant didn't want to do it that way. · They wanted to wire to a company they already knew. · So they wanted to wire to my Dyljac Kashwere LP. · Kashwere USAJPN receives no royalty payments, no wires, nothing. (emphasis added).

The Seventh Circuit opinion similarly states that "Although USAJPN is the nominal license holder, Flat Be pays royalties to Seltzer rather than to USAJPN." *TMG Kreations, LLC v. Seltzer*, 771 F.3d 1006, 1009 (7th Cir. 2014) (emphasis added). This is, of course, binding as collateral estoppel. See Transcript, 11:12-14 and 16:12-16.

As Kashwere USAJPN had no right to royalties, it could not have been deprived of royalties by reason of any conduct of Costco.⁸ As such, it has no claim

⁷ The relevant portions of the transcript are attached hereto as Exhibit "A."

⁸ The transcript sets forth at page 3 that Mr. Klein was present at the deposition, so he must have known that the allegations of paragraph 25 of the First Amended Complaint, which was filed on December 24, 2013, five months after the

herein.

C. Flat Be, the Only Party Whose Claims Remain to be Tried, is a Japanese Corporation with No Connection to the United States

According to the First Amended Complaint, Plaintiff Flat Be is a Japanese corporation and a citizen of Japan. (FAC, ¶ 2). On June 5, 2006, Flat Be entered into an exclusive distribution agreement with Kashwere Comforts, under which Flat Be allegedly became the exclusive distributor of the so-called Licensed Goods in Japan (and nowhere else). (FAC, ¶ 18). Flat Be sells the products which are the subject of this action “exclusively in Japan under its exclusive distribution and license agreement.” (FAC, ¶ 19). It contracts with a factory in Taiwan to manufacture its Kashwere products. (FAC, ¶ 20). Other than being a party to a contract with an American company which grants it certain rights, Flat Be apparently has no connection with the United States. The conduct which allegedly caused it damages, i.e. Costco’s sale of Kashwere goods in Japan which allegedly caused confusion to consumers in Japan, occurred entirely in Japan. Thus, as shown below, to assert a substantive claim, Flat Be would need to establish subject matter jurisdiction, and it cannot do so.

IV. NO SUBJECT MATTER JURISDICTION EXISTS

Costco demonstrated in its Brief and Proposed Jury Instruction Regarding Subject Matter Jurisdiction, filed December 31, 2014 (Dkt. # 84) that the extraterritorial application of the Lanham Act is an issue of subject matter jurisdiction. Subject matter jurisdiction also needs to be analyzed plaintiff by plaintiff.

Plaintiffs’ Jurisdictional Brief (Dkt. # 82), refers to Kashwere USAJPN, but does not even mention Flat Be or Sirius. As set forth above, they are Japanese

deposition, as well as that in his Trial Brief on Extraterritorial Reach of the Lanham Act, filed last week, were false.

1 corporations and citizens, with no operations in the United States, and can sell
2 Kashwere goods only in Japan. Plaintiffs' failure to address Flat Be and Sirius in
3 its brief suggests that they recognize the jurisdictional problem.

4 As discussed above, regardless of which of the Plaintiffs remain, the only
5 substantive claim remaining in this case is that Costco Japan sold knockoffs of
6 Kashwere goods. It is common knowledge that knockoffs of well-known brands
7 are readily available in many foreign countries. Nothing in the Lanham Act or the
8 cases interpreting it suggests that the American federal courts should be the forum
9 for addressing such sales occurring in foreign countries.⁹

10 Plaintiffs mischaracterize Judge Fisher's ruling in *Kashwere USAJPN v.*
11 *TMG Kreations*, CV-12-4815 DSF, when they assert that she ruled that "the
12 extraterritorial reach of the Lanham Act allowed Kashwere USAJPN to sue in
13 California for sales of infringing goods in Japan." Judge Fisher's Order (Dkt. # 36)
14 set forth that "Moving Defendants presented no affidavits or extrinsic evidence
15 showing that extraterritorial application is inappropriate based on the underlying
16 facts of the case," and that the allegations of the complaint were sufficient to
17 establish jurisdiction. Those allegations included trademark infringement claims
18 that have now been dismissed from this case. Moreover, Costco intends, to the
19 extent necessary, to introduce extrinsic evidence.

20 Ninth Circuit case law recognizes that the extraterritorial coverage of the
21 Lanham Act turns on a three-part test: "(1) the alleged violations must create some
22 effect on American foreign commerce; (2) the effect must be sufficiently great to
23 present a cognizable injury to the plaintiffs under the Lanham Act; and (3) the
24 interests of and links to American foreign commerce must be sufficiently strong in
25 relation to those of other nations to justify an assertion of extraterritorial authority."

26 _____
27 ⁹ There is also the separate question of whether Costco Wholesale Corporation can
28 be held liable for sales by its subsidiary Costco Japan in Japan. That, however, is a
question of liability, not jurisdiction.

1 The third part of the test turns on seven factors,¹⁰ which are discussed below. *Star-*
2 *Kist Foods, Inc. v. P.J. Rhodes & Co.*, 769 F.2d 1393, 1395 (9th Cir.1985) (citing
3 *Timberlane Lumber Co. v. Bank of Am. Nat'l Trust & Sav. Ass'n*, 549 F.2d 597 (9th
4 Cir.1976).

5 The three parts of the test are stated in the conjunctive – the second and third
6 prongs are separated by the word “and.” All three parts of the test must be satisfied
7 to establish jurisdiction.

8 Application of the test to this case demonstrates that jurisdiction is absent.
9 Plaintiffs rely on a series of cases alleging trademark infringement. Whatever basis
10 there is to assert jurisdiction in such cases because of the interest of American
11 courts in protecting American trademarks is absent in this case, which seeks to
12 protect foreign consumers against confusion with respect to goods as to which
13 Plaintiffs hold no intellectual property rights.

14 Plaintiffs cite *Love v. Associated Newspapers, Ltd.*, 611 F.3d 601, 612-613
15 (9th Cir. 2010). Plaintiff, Mike Love, a Nevada resident and original member of
16 the Beach Boys, sued Brian Wilson, the leader of the group who wrote most of its
17 songs, and others based on the distribution in Great Britain of a CD which
18 contained solo performances of Beach Boys songs by Wilson and which allegedly
19 infringed on Love’s U.S. trademark. They were manufactured in Germany by a
20 London manufacturer, and none of them ever entered the U.S. market. The cover
21 included photographs of the Beach Boys, including Love. 611 F.3d at 613. Love

22
23 ¹⁰ “[1] [T]he degree of conflict with foreign law or policy, [2] the nationality or
24 allegiance of the parties and the locations or principal places of business of
25 corporations, [3] the extent to which enforcement by either state can be expected to
26 achieve compliance, [4] the relative significance of effects on the United States as
27 compared with those elsewhere, [5] the extent to which there is explicit purpose to
28 harm or affect American commerce, [6] the foreseeability of such effect, and [7] the
relative importance to the violations charged of conduct within the United States as
compared with conduct abroad.” *Star-Kist Foods, Inc.*, 769 F.2d at 1395, citing
Timberlane Lumber Co., 549 F.2d 597.

1 alleged that the CDs caused confusion abroad, and resulted in reduced ticket sales
2 for his U.S. tour, creating an impact on U.S. commerce. *Id.* The Ninth Circuit
3 found no jurisdiction, ruling that even if there was confusion abroad, it would be
4 too great a stretch to infer such overseas confusion resulted in lost ticket sales in the
5 U.S. *Id.* Here, any confusion regarding the products in Japan cannot cause
6 confusion in the U.S., where Plaintiffs have no right to make sales.

7 Plaintiffs misstate the holding in *Pinkberry, Inc. v. JEC Int'l Corp.*, CV 11-
8 6540 PSG (PJWx), 2011 WL 6101828 (C.D. Cal. Dec. 7, 2011). In fact, they
9 misstate the holding about as much as it is possible to misstate a holding. Plaintiffs
10 state that *Pinkberry* “held that Plaintiff[s] could maintain their action in the United
11 States District Court in California” (Jurisdiction Brief, p.3), when it held exactly the
12 opposite: “After considering the moving and opposing papers, the Court GRANTS
13 the motion to dismiss the federal claims for lack of subject matter jurisdiction ...”
14 *Pinkberry, Inc.*, 2011 WL 6101828 at *1.

15 While Plaintiffs are correct when they state that *Pinkberry* held (as Plaintiffs
16 argue here) that “the harm from Defendants’ acts abroad has some effect on U.S.
17 commerce,” it more significantly held that Plaintiffs could not satisfy the third
18 factor required for jurisdiction, i.e. the Court held that the interests of and links to
19 American foreign commerce were not sufficiently strong in relation to those of
20 other nations to justify an assertion of extraterritorial authority. *Id.* at *8 and *21.
21 Those factors weigh even more heavily against the exercise of jurisdiction here than
22 in *Pinkberry*:

23 1. Degree of conflict. This is not a trademark infringement case,
24 so there is no reason for an American court to intervene to protect a U.S. trademark
25 or a U.S. trademark holder. A Japanese court would have no reason to apply the
26 Lanham Act or California law to the conduct alleged here, and a company doing
27 business in Japan would have no reason to conform to American tort law. On the
28 other hand, a Japanese court would have every reason to apply Japanese law to the

1 alleged conduct – all of which occurred in Japan. Therefore, to the extent there is a
2 conflict, Japanese law should apply, which weighs against exercising jurisdiction.

3 2. Nationality. In *Pinkberry*, the two individual defendants were
4 citizens of Japan, but residents of California. *Id.* at *15-16. One of the two
5 corporate defendants had stores and its corporate headquarters in California and the
6 other had an office here. In the instant case, Flat Be and Sirius are Japanese
7 corporations which apparently have no operations, employees or offices in the
8 United States. The third, Kashwere USAJPN, is a domestic corporation, which
9 does not appear to have any employees, operations or revenue whatsoever. This
10 factor weighed in favor of exercising jurisdiction in *Pinkberry*, but not here.

11 3. Achieving compliance. *Pinkberry* held that, because the
12 defendants were incorporated in, or had substantial ties to, the United States, this
13 factor weighed in favor of extraterritorial application of the Lanham Act. *Id.* at
14 *16-17. Here, because the sales were by Costco Japan, not by Costco Wholesale
15 Corporation, this factor weighs against extraterritorial application.

16 4. Relative Significance of Effects. In *Pinkberry*, because the sales
17 occurred in Japan, “the effect on the United States ‘is relatively insignificant’ as
18 compared with the effect on” Japan. *Id.* at *17. The Court found this factor to
19 weigh against jurisdiction, stating that “[a]ny sale of frozen yogurt to consumers in
20 Japan, even by a corporation based in the United States, has a greater effect on
21 Japanese commerce than on U.S. foreign commerce.” *Id.* This factor weighs
22 against jurisdiction here for the same reasons.

23 5 and 6. Purpose to Harm or Affect U.S. Commerce and
24 Foreseeability. *Pinkberry* considered these factors together. The Court found these
25 factors neutral because defendant’s registration of a trademark in Japan balanced
26 the harm from using Plaintiff’s U.S. trademark in Japan. Here, Plaintiffs had no
27 U.S. trademark, so there is no basis for concluding that defendant intended to affect
28 U.S. commerce or that it was foreseeable that its sales would do so. Both of these

1 factors weigh against jurisdiction.

2 7. Relative Importance. In *Pinkberry*, this factor was neutral
3 because, although defendant registered the trademark in Japan, it directed the
4 activities from the U.S. *Id.* at *20. Here, the most important act was the sale of
5 goods in Japan, and the legal principle at issue is protection of consumers from
6 confusion. There is no reason why an American court should decide what
7 protection Japanese consumers should receive or what relief should be granted if
8 they were in fact confused. This factor weighs toward denial of jurisdiction.

9 The factors weigh more heavily in favor of denial of jurisdiction than in
10 *Pinkberry*.

11
12 Plaintiffs also misstate the holding of *Reebok Intern, Ltd. v. Marnatech*
13 *Enterprises, Inc.*, 970 F.2d 552 (9th Cir.1992), stating that the Ninth Circuit based
14 jurisdiction on a finding that defendants in the United States organized and directed
15 the manufacture and sale of counterfeit shoes in Mexico and this caused some effect
16 on U.S. foreign commerce. As *Love* recognized, 611 F.3d at 613, there was more to
17 it than that: the Ninth Circuit based its finding of jurisdiction on the fact that
18 defendant “organized and directed [the deception] from the United States,” and that
19 it knew that the deceptive products, sold primarily in Mexican border towns such as
20 Tijuana, “went back to the United States with regular frequency,” and that sales of
21 the “genuine” product decreased in the United States.” Plaintiffs cannot show that
22 any of the deceptive products “went back to the United States,” or that Plaintiffs’
23 U.S. sales decreased, because Plaintiffs have no right to sell products in the United
24 States.

25 The Court likewise found no jurisdiction in a lawsuit against a company
26 which purchased goods at Trader Joe’s in Bellingham, Washington, and resold
27 them in its Pirate Joe’s store in Vancouver, British Columbia. *Trader Joe’s Co. v.*
28 *Hallatt*, 981 F. Supp. 2d 972 (W.D. Wash. 2013). The Court found the conduct

1 more significant in Canada, where the products were re-sold, than in the United
 2 States, where they were purchased.

3 **V. CONCLUSION**

4 Of the three Plaintiffs:

5 1. Sirius sues solely based on a trademark which the Court has held it
 6 does not hold, and has no connection to the United States that would confer subject
 7 matter jurisdiction;

8 2. Flat Be has no connection to the United States that would confer
 9 subject matter jurisdiction; and

10 3. Kashwere USAJPN has no direct claim that would confer standing, no
 11 right to royalties that would entitle it to damages, and no basis for claiming subject
 12 matter jurisdiction based on transactions that occurred only in Japan.

13 Even if Plaintiffs could overcome all of these hurdles, they cannot prevail
 14 unless they prove that the goods were knockoffs. Plaintiffs must know that they
 15 cannot prove that, because they have seen all of the documents which show the
 16 source of the goods.

17 Accordingly, Costco believes that all issues can be resolved without the
 18 assistance of a jury. If a jury trial is nevertheless held, Costco will establish facts
 19 that cannot reasonably be disputed, i.e. that the goods it sold originated with
 20 Kashwere / TMK, and are not knock-offs. Plaintiffs have no basis whatsoever to
 21 argue otherwise.

22
 23 DATED: January 6, 2015

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24
 25
 26 By: /s/ Norman H. Levine

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